

Life Insurance Changes for 2005

(The following changes are effective January 1, 2005)

- * Basic Life and AD&D increased to \$33,000 at no charge to employee.
- * Employee may purchase up to \$60,000 of Optional Life coverage within 30 days of the death of spouse without evidence of insurability.

What is “Guarantee Issue”?

When a life insurance contract includes a guarantee issue provision, it means that an applicant will not be denied coverage on the basis of health and it is not necessary for the applicant to submit a medical health statement. Generally, there is a limit to the amount of guaranteed coverage and there may be other limitations as well. The State’s Optional Life plan does not guarantee issue for any adult applicant who enrolls during open enrollment. Employees who apply for Optional Life coverage for themselves or their spouse during open enrollment will be mailed a Medical History Statement to be completed and sent directly to Standard Insurance Company for consideration. The term used for the approval process is “medical underwriting.” Coverage will be effective the first of the month following approval of the medical underwriters (review of your medical history statement).

How will my agency benefits or payroll administrator know that my coverage has been approved?

Both you and your department will be notified if your coverage is approved or denied. Your department payroll or benefits staff may also apply to the Benefits Unit for online access to the underwriting status reports for your department. The status reports do not contain any medical information, but indicate if coverage is pending, approved or denied.

What is “adverse selection”?

Since humans naturally tend to act in their own best interests, they are more likely to apply for coverage when they are at risk of loss, and to forgo coverage when they feel that they are not at risk. For example, a person diagnosed with a life-threatening disease is more likely to apply for as much life insurance as he can afford while a healthy person may not to apply at all. As a result, an insured group is likely to experience more losses than a similar group that is not insured. This phenomenon is called adverse selection and leads to higher rates than might otherwise be expected.

Why isn’t Guarantee Issue offered at open enrollment anymore?

The State’s prior practice of offering guaranteed issue at open enrollment caused adverse selection against the plan and increased premiums. By limiting guarantee issue, the State is able to hold down the Optional Life rates.

Will Guarantee Issue be available at all?

Not during open enrollment. Employees who apply within 30 days of their initial eligibility (date of hire) will be offered the opportunity to purchase up to \$60,000 of Optional Life and up to half of that amount (\$30,000) for their spouse without evidence

of insurability. Guarantee Issue also applies when an Employee applies for Optional Life within 31 days of acquiring a dependent by marriage, birth or adoption, or applies within 31 days of the death of a spouse. Amounts applied for in excess of the guaranteed issue amount are subject to approval of your medical history statement.

Why is Spouse coverage limited?

When we analyzed death claims, it was apparent that claims for spouses were disproportionately greater than for employees. By limiting spouse coverage to 50 percent of employee coverage, we feel we can balance the risk of adverse selection by encouraging healthy employees who might not otherwise enroll to do so. We did not want to eliminate guarantee issue altogether.

My spouse currently has Optional Life insurance. Can she keep it, or do I now have to apply?

Current levels of coverage are “grandfathered” but upgrades (or downgrades) will be subject to the new rules. By way of example, assume you and your spouse currently each have \$20,000 of Optional Life. You may keep it that way if you choose, but if your spouse now wants to apply for \$50,000, you must apply for and be issued at least \$100,000, subject to approval of your medical history statement.

My spouse is healthy, but I am not. What if I am not approved for additional coverage?

Your spouse will not be issued more than half of the amount issued to you even if he or she is healthier than you.

Is my Group Term Life and AD&D benefit taxable?

You may be taxed on a portion of the value of your Group Term Life insurance (Basic and Optional Life), but only to the extent that the “imputed value” (see below) of your coverage (as determined in accordance with IRS rules) exceeds the actual premium. If you die, your Beneficiary will receive the proceeds of your life insurance policy tax-free.

The value of the first \$50,000 is tax exempt. Because the IRS uses age at the end of the year to determine imputed value, while the State uses age at the beginning of the year to determine premium, there is a mismatch when an employee moves to a higher age band. For example, an employee turning age 65 in August of 2005 will be in the 60-64 age band for premiums and in the 65-69 age band for imputed value. The majority of employees are unaffected, but some will have additional payroll taxes withheld.